

Summary Analysis of Alternative Concepts and Proposals for January 19, 2005 Pre-Hearing Workshop

Classes 2, 3, 4a, and 4b Price Proposals

Executive Summary

**Table 1: Proposals Less Class and Pool Prices
Based on Current Formulas, January 2000 – December 2004
Five-year Average Change
(Prices per hundredweight)**

	Classes 2 & 3	Class 4a	Class 4b	Pool Prices*
LOL	-\$0.04	-\$0.04	-\$0.57	-\$0.26
MPC	\$0.01	\$0.01	\$0.07	\$0.04
CDC			\$0.91	\$0.41
WUD	-\$0.01	-\$0.01	\$0.14	\$0.06
CDI	-\$0.23	-\$0.23	-\$0.00	-\$0.09
Alliance	-\$0.10	-\$0.10	\$0.12	\$0.01
Institute	-\$0.04	-\$0.04	-\$0.63	-\$0.29

*December 2004 pool prices and volumes are estimated.

Analyses

- Table 1 - Summary Analysis of Alternative Concepts and Proposal
- Table 2 - Comprehensive Findings
- Table 3 – Approximate Volume Covered by Current and Proposed Manufacturing Cost Allowances for Butter, NFDM, Cheddar Cheese & Skim Whey Powder
- Table 4 – Components of Class 4a and 4b Prices
- Table 5 - Summary of Pricing Impacts
- Table 6 – Impact on California Class Prices Relative to Federal Order Prices
- Table 7 – Changes in Raw Product Costs Relative to Costs Generated by Current Formulas
- Table 8 – Average Changes in Raw Product Costs Relative to Federal Order Prices
- Summary of Hearing Petition and Alternative Proposals
- Supplemental Data Relating to Manufacturing Cost Exhibits as Presented at Pre-hearing Workshop

Comprehensive Findings

**Table 2: Percent of Months in which the Commodity Price is
Floored/Snubbed for January 2000 – December 2004
Five-Year Average
(Prices per hundredweight)**

	AA Butter	Nonfat Dry Milk	Cheddar Cheese	Skim Whey Powder
CURRENT	2%	20%	18%	
LOL	2%	20%	18%	
MPC	2%	20%	18%	33%
CDC	2%	20%	18%	15%
WUD	2%	20%	18%	
CDI	2%	20%	18%	
Alliance	2%	20%	18%	22%
Institute	0%	0%	0%	

**Table 3: Approximate Volume Covered by Current and Proposed Manufacturing
Cost Allowances for Butter, Nonfat Dry Milk, Cheddar Cheese, Skim Whey Powder**
All figures in \$/ lb. unless otherwise noted.

BUTTER				NONFAT DRY MILK			
% of Volume	Cost Studies	Proposed Allowances		% of Volume	Cost Studies	Proposed Allowances	
40%	\$0.10			40%	\$0.145		
50%	\$0.135	\$0.1320	Current	50%			
		\$0.1321	LOL & Institute	60%	\$0.15	\$0.1500	Current
60%	\$0.155					\$0.1551	LOL & Institute
80%				80%	\$0.17	\$0.1650	CDI
90%	\$0.16	\$0.1570	Alliance & CDI	90%			

CHEDDAR CHEESE				SKIM WHEY POWDER			
% of Volume	Cost Studies	Proposed Allowances		% of Volume	Cost Studies	Proposed Allowances	
30%		\$0.1634	CDC			\$0.1590	CDC
40%				0%		\$0.1700	Current
50%	\$0.165					\$0.1800	MPC
60%				40%	\$0.23		
70%	\$0.17	\$0.1710	Alliance	50%			
		\$0.1734	LOL & Institute	60%			
		\$0.1750	Current	70%			
80%				80%	\$0.26	\$0.2590	LOL
90%	\$0.19					\$0.2675	Institute
				90%			

Based on January 2003 to December 2003 Cost Data and Updates for 2004 Labor and September 2004 Utility Costs, except for SWP which uses January 2002 to October 2003 Cost Data. Does not include reduction in allowance resulting from impact of snubbing commodity prices.

Breakdown of Changes to Pricing Formulas by Category

Price changes are broken up into effects resulting from changes either to the “manufacturing cost allowances” or to “other.” “Other” includes proposed changes submitted by the industry to the f.o.b. California price adjusters, yields, removing the support purchase prices, adding a snubber for the skim whey factor, etc.

Table 4: Components Of Class 4a and 4b Prices
Five-Year Average Change
January 2000 - December 2004
(Prices per hundredweight)

Class 4a					
LOL	Allowances	-\$0.04	CDI	Allowances	-\$0.24
	Other	\$0.01		Other	\$0.01
	Total	-\$0.04		Total	-\$0.23
MPC	Allowances		Alliance	Allowances	-\$0.10
	Other	\$0.01		Other	\$0.01
	Total	\$0.01		Total	-\$0.10
CDC	Allowances		Institute	Allowances	-\$0.04
	Other			Other	\$0.00
	Total	n.a.		Total	-\$0.04
WUD	Allowances				
	Other	-\$0.01			
	Total	-\$0.01			
Class 4b					
LOL	Allowances	-\$0.49	CDI	Allowances	-\$0.00
	Other	-\$0.08		Other	-\$0.00
	Total	-\$0.57		Total	-\$0.00
MPC	Allowances	-\$0.04	Alliance	Allowances	\$0.04
	Other	\$0.11		Other	\$0.08
	Total	\$0.07		Total	\$0.12
CDC	Allowances	\$0.17	Institute	Allowances	-\$0.55
	Other	\$0.74		Other	-\$0.09
	Total	\$0.91		Total	-\$0.63
WUD	Allowances				
	Other	\$0.14			
	Total	\$0.14			

Note: Sums may not add up to total due to rounding.

Summary of Pricing Impacts

Impact on California Class and Pool Prices

- The table below shows the impacts of the petition and alternative proposals on class and pool prices relative to current prices from January 2000 through December 2004.
- The analysis assumes that the petition, alternative proposals and current formulas were in effect throughout the analysis period.
- The support purchase prices used reflect those in effect during the analysis time period; not the current support purchase prices projected backward.

Table 5: Proposals Less Class and Pool Prices*
Based On Current Formulas, January 2000 - December 2004
(Prices per hundredweight)

	2000	2001	2002	2003	2004	Average
Classes 2 & 3						
LOL	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04
MPC	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
CDC						N/A
WUD	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01
CDI	-\$0.23	-\$0.23	-\$0.23	-\$0.23	-\$0.23	-\$0.23
Alliance	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10
Institute	-\$0.05	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04
Class 4a						
LOL	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04
MPC	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
CDC						N/A
WUD	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01
CDI	-\$0.23	-\$0.23	-\$0.23	-\$0.23	-\$0.23	-\$0.23
Alliance	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10
Institute	-\$0.05	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04
Class 4b						
LOL	-\$0.55	-\$0.56	-\$0.56	-\$0.58	-\$0.59	-\$0.57
MPC	\$0.05	\$0.03	\$0.09	\$0.13	\$0.05	\$0.07
CDC	\$0.84	\$0.89	\$0.88	\$0.97	\$0.98	\$0.91
WUD	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14
CDI	-\$0.00	-\$0.00	-\$0.00	-\$0.00	-\$0.00	-\$0.00
Alliance	\$0.10	\$0.11	\$0.12	\$0.14	\$0.11	\$0.12
Institute	-\$0.68	-\$0.59	-\$0.66	-\$0.65	-\$0.58	-\$0.63
Pool Prices						
LOL	-\$0.24	-\$0.26	-\$0.26	-\$0.28	-\$0.29	-\$0.26
MPC	\$0.02	\$0.02	\$0.04	\$0.07	\$0.03	\$0.04
CDC	\$0.34	\$0.39	\$0.40	\$0.45	\$0.46	\$0.41
WUD	\$0.05	\$0.06	\$0.06	\$0.06	\$0.06	\$0.06
CDI	-\$0.09	-\$0.09	-\$0.09	-\$0.09	-\$0.09	-\$0.09
Alliance	\$0.00	\$0.01	\$0.01	\$0.02	\$0.01	\$0.01
Institute	-\$0.29	-\$0.27	-\$0.31	-\$0.31	-\$0.29	-\$0.29

*December 2004 pool prices and volumes are estimated.

Impact on California Class Prices Relative to Federal Order Prices

- The table below shows the impacts of the petition and alternative proposals on class prices relative to comparable federal prices from January 2000 through December 2004.
- The federal prices are those that would have resulted from using the pricing formulas announced in the Final Rule on November 7, 2002. The analysis assumes that these formulas have been in place since January 2000.
- Comparisons involving Class 2 use the Northern California prices relative to the Pacific Northwest federal order prices.
- Comparisons involving Class 3 use the Southern California prices relative to the Arizona-Las Vegas federal order prices.

**Table 6: Proposals less Federal Class Prices Relative to Federal Order Prices
January 2000 - December 2004 (Prices per hundredweight)**

	2000	2001	2002	2003	2004	Average
Northern California Class 2 less Oregon Class II						
Current	-\$0.39	-\$0.09	-\$0.01	-\$0.26	-\$0.78	-\$0.31
LOL	-\$0.43	-\$0.13	-\$0.05	-\$0.29	-\$0.82	-\$0.34
MPC	-\$0.38	-\$0.08	\$0.00	-\$0.24	-\$0.77	-\$0.30
CDC	-\$0.39	-\$0.09	-\$0.01	-\$0.26	-\$0.78	-\$0.31
WUD	-\$0.40	-\$0.10	-\$0.02	-\$0.26	-\$0.79	-\$0.31
CDI	-\$0.62	-\$0.32	-\$0.24	-\$0.48	-\$1.01	-\$0.54
Alliance	-\$0.49	-\$0.19	-\$0.11	-\$0.35	-\$0.88	-\$0.41
Institute	-\$0.44	-\$0.13	-\$0.05	-\$0.29	-\$0.82	-\$0.35
Southern California Class 3 less Arizona Class II						
Current	-\$0.42	-\$0.12	-\$0.04	-\$0.29	-\$0.81	-\$0.34
LOL	-\$0.46	-\$0.15	-\$0.08	-\$0.32	-\$0.85	-\$0.37
MPC	-\$0.41	-\$0.11	-\$0.03	-\$0.27	-\$0.80	-\$0.33
CDC	-\$0.42	-\$0.12	-\$0.04	-\$0.29	-\$0.81	-\$0.34
WUD	-\$0.43	-\$0.13	-\$0.05	-\$0.29	-\$0.82	-\$0.34
CDI	-\$0.65	-\$0.35	-\$0.27	-\$0.51	-\$1.04	-\$0.56
Alliance	-\$0.52	-\$0.22	-\$0.14	-\$0.38	-\$0.91	-\$0.43
Institute	-\$0.47	-\$0.15	-\$0.08	-\$0.32	-\$0.85	-\$0.38
Class 4a less Class IV						
Current	-\$0.09	-\$0.18	-\$0.21	-\$0.18	-\$0.37	-\$0.20
LOL	-\$0.13	-\$0.21	-\$0.25	-\$0.21	-\$0.41	-\$0.24
MPC	-\$0.08	-\$0.17	-\$0.20	-\$0.16	-\$0.36	-\$0.19
CDC	-\$0.09	-\$0.18	-\$0.21	-\$0.18	-\$0.37	-\$0.20
WUD	-\$0.10	-\$0.18	-\$0.22	-\$0.18	-\$0.38	-\$0.21
CDI	-\$0.32	-\$0.41	-\$0.44	-\$0.40	-\$0.60	-\$0.43
Alliance	-\$0.19	-\$0.28	-\$0.31	-\$0.27	-\$0.47	-\$0.30
Institute	-\$0.14	-\$0.21	-\$0.25	-\$0.21	-\$0.41	-\$0.25
Class 4b less Class III						
Current	-\$0.33	-\$0.49	-\$0.40	-\$0.19	-\$0.54	-\$0.39
LOL	-\$0.87	-\$1.05	-\$0.96	-\$0.77	-\$1.13	-\$0.96
MPC	-\$0.28	-\$0.46	-\$0.31	-\$0.06	-\$0.49	-\$0.32
CDC	\$0.52	\$0.40	\$0.48	\$0.78	\$0.44	\$0.53
WUD	-\$0.19	-\$0.35	-\$0.26	-\$0.05	-\$0.40	-\$0.25
CDI	-\$0.33	-\$0.49	-\$0.40	-\$0.19	-\$0.54	-\$0.39
Alliance	-\$0.22	-\$0.37	-\$0.28	-\$0.04	-\$0.43	-\$0.27
Institute	-\$1.00	-\$1.08	-\$1.06	-\$0.84	-\$1.12	-\$1.02

Impact on Raw Product Prices in Consumer Sizes

- The tables below show the impacts of the petition and alternative proposals on raw product prices in consumer container sizes.
- Ice cream contains 10% fat and 10% SNF with a density of 4.5 lbs per gallon.
- Yogurt contains 1% fat and 10% SNF.

**Table 7: Changes in Raw Product Costs
Relative to Costs Generated by Current Formulas
Five-Year Average: January 2000 - December 2004
(In Consumer Product Sizes)**

	Average Ice Cream (½ gallon)	Yogurt (quart)
LOL	-0.1¢	-0.1¢
MPC	0.1¢	0.0¢
CDC	N/A	N/A
WUD	0.0¢	0.0¢
CDI	-1.0¢	-0.4¢
Alliance	-0.6¢	-0.1¢
Institute	-0.1¢	-0.1¢

**Table 8: Average Changes in Raw Product Costs
Relative to Federal Order Prices, January 2000 - December 2004**

	2000	2001	2002	2003	2004	Average
Ice Cream - Northern California less Oregon						
(Prices Per Half Gallon)						
Current	-2.1¢	-0.1¢	0.4¢	-1.3¢	-4.1¢	-1.4¢
LOL	-2.2¢	-0.2¢	0.4¢	-1.3¢	-4.2¢	-1.5¢
MPC	-2.1¢	0.0¢	0.5¢	-1.2¢	-4.1¢	-1.4¢
CDC	-2.1¢	-0.1¢	0.4¢	-1.3¢	-4.1¢	-1.4¢
WUD	-2.2¢	-0.2¢	0.4¢	-1.3¢	-4.2¢	-1.5¢
CDI	-3.1¢	-1.1¢	-0.5¢	-2.2¢	-5.1¢	-2.4¢
Alliance	-2.8¢	-0.7¢	-0.2¢	-1.9¢	-4.8¢	-2.1¢
Institute	-2.2¢	-0.2¢	0.4¢	-1.3¢	-4.2¢	-1.5¢
Yogurt - Northern California less Oregon						
(Prices Per Quart)						
Current	-0.5¢	-0.3¢	-0.3¢	-0.4¢	-1.0¢	-0.5¢
LOL	-0.6¢	-0.4¢	-0.4¢	-0.5¢	-1.1¢	-0.6¢
MPC	-0.5¢	-0.3¢	-0.3¢	-0.4¢	-1.0¢	-0.5¢
CDC	-0.5¢	-0.3¢	-0.3¢	-0.4¢	-1.0¢	-0.5¢
WUD	-0.5¢	-0.3¢	-0.3¢	-0.4¢	-1.0¢	-0.5¢
CDI	-0.9¢	-0.7¢	-0.7¢	-0.8¢	-1.4¢	-0.9¢
Alliance	-0.6¢	-0.4¢	-0.4¢	-0.5¢	-1.0¢	-0.6¢
Institute	-0.6¢	-0.4¢	-0.4¢	-0.5¢	-1.1¢	-0.6¢

SUMMARY OF HEARING PETITION AND ALTERNATIVE PROPOSALS

- 1) Petitioner: Land O' Lakes
 - a. decrease the f.o.b. California price adjuster for butter to -0.0314
 - b. increase the manufacturing cost allowance for butter to 0.1321
 - c. increase the manufacturing cost allowance for nonfat powder to 0.1551
 - d. decrease the f.o.b. California price adjuster for Cheddar cheese to -0.0287
 - e. decrease the manufacturing cost allowance for Cheddar cheese to 0.1734
 - f. increase the western dry whey manufacturing cost allowance to 0.2590.

Note: original petition requested that this allowance cover 80% of the volume produced. The Department was unable to release a final number prior to receiving the petition. This number was subsequently calculated to be 0.259 by the Department.

- g. decrease the fat test to 3.65
 - h. decrease the solids-not-fat test to 8.78
 - i. decrease the Cheddar cheese yield to 10.0

Alternative Proposals

- 2) Milk Producers' Council
 - a. decrease the f.o.b. California price adjuster for butter to -0.0306
 - b. decrease the f.o.b. California price adjuster for Cheddar cheese to -0.0234
 - c. increase the manufacturing cost allowance for western dry whey to 0.18
 - d. add a "snubber" to the western dry whey portion of the product calculation in the 4b price. This snubber will replace a negative western dry whey factor with zero.
- 3) California Dairy Campaign
 - a. remove the f.o.b California price adjuster for Cheddar cheese from product value formula
 - b. decrease the manufacturing cost allowance for Cheddar cheese to 0.1634
 - c. decrease the manufacturing cost allowance for western dry whey to 0.159
 - d. add a "snubber" to the western dry whey portion of the product calculation in the 4b price. This snubber will replace a negative western dry whey factor with zero.
 - e. increase the fat test to 3.94
 - f. increase the solids-not-fat test to 8.95
 - g. increase the Cheddar cheese yield to 10.92
- 4) Western United Dairywomen
 - a. increase the f.o.b. California price adjuster for butter in the Class 4a formula to -0.0350

- b. decrease the f.o.b. California price adjuster for Cheddar cheese in the Class 4b formula to -0.0185
- 5) California Dairies, Inc
 - a. decrease the f.o.b. California price adjuster for butter in the Class 4a formula to -0.315
 - b. increase the manufacturing cost allowance for butter to 0.1570
 - c. increase the manufacturing cost allowance for nonfat powder to 0.1650
 - d. increase the manufacturing cost allowance for whey butter to 0.1570
- 6) Alliance of Western Milk Producers
 - a. decrease the manufacturing cost allowance for Cheddar cheese to 0.1710
 - b. increase the manufacturing cost allowance for AA butter and whey butter to 0.1570
 - c. decrease the f.o.b. California price adjuster for Cheddar cheese to -0.0232
 - d. decrease the f.o.b. California price adjuster for AA butter to -0.0315
 - e. decrease the fat test to 3.67
 - f. increase the SNF test to 8.93
 - g. but leave the yield for Cheddar cheese at 10.2
 - h. add a "snubber" to the western dry whey portion of the product calculation in the 4b price. This snubber will replace a negative western dry whey factor with zero.
- 7) Dairy Institute of California
 - a. eliminate federal support purchase prices for butter, Cheddar cheese, and nonfat dry milk.
 - b. decrease the manufacturing cost allowances for Cheddar cheese to 0.1734
 - c. increase the manufacturing cost allowances for skim whey powder to 0.2675
 - d. increase the manufacturing cost allowances for AA butter and whey butter to 0.1321
 - e. increase the manufacturing cost allowances for nonfat dry milk to 0.1551
 - f. decrease the f.o.b. California price adjuster for Cheddar cheese to -0.0287
 - g. decrease the f.o.b. California price adjuster for AA butter to -0.0314
 - h. decrease the fat test to 3.67
 - i. decrease the SNF test to 8.75
 - j. decrease the yield for Cheddar cheese to 10.05

Supplemental Data Relating to Cost Exhibits

During the pre-hearing workshop held January 19, 2005, supplemental data relating to the Cost Exhibits was requested by the participants. The following information is in response to those requests:

1. Changes in production from the November 2003 exhibit:
 - Butter production decreased 20.7 million lbs (– 5.4%)
 - Nonfat powder production decreased 10.5 million lbs (-1.4%)
 - Cheese production increased .2 million lbs (0%)
2. Total butter lbs. include both bulk and print, but costs are on 25 kg or 68 lb. boxes only.
3. Total powder lbs. include both standard bags and totes, but costs are on 25 kg or 50 lb. bags only.
4. Total cheese lbs. include Cheddar and Monterrey jack, but costs are only on 40 lb. blocks of Cheddar cheese.
5. Utility changes from cost studies based on invoices for September 2004:
 - Butter and powder plants: Natural gas -10.8% cost per therm
 - Electricity +3.6% cost per KWH
 - Cheese plants: Natural gas +1.6% per therm
 - Electricity +9.0% per KWH
6. Worker's comp insurance rate changes from cost studies based on 2004 data:
 - Butter and powder plants: +13.5%
 - Cheese plants: +32%